To: State of Michigan
From: Rebecca Stanfield, Senior Energy Policy Advocate, NRDC Midwest Program
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Q19. Has Michigan, or have any other jurisdictions, attempted to incentivize peak shaving vs. general energy efficiency? What have been the costs and benefits associated with these policies?

Yes. Both Michigan and other jurisdictions have sought to produce both on-peak energy savings and more general energy savings through its Energy Optimization programs. First, in Michigan and most if not all jurisdictions, when calculating the cost-effectiveness of a program, the utility counts as part of its avoided costs both the energy and the capacity costs avoided by virtue of the program. Therefore, a program that produces a large amount of its savings during peak demand periods will, all else being equal, be more cost-effective under such calculations than a program that has less on-peak savings.

Moreover, in recent dockets, the Commission has authorized a performance incentive to further incentivize on-peak savings. Specifically, in docket U-17049 the Commission issued an order on December 20 allowing Detroit Edison to earn up an incentive worth up to 1% of its program costs for achieving peak savings targets of 80-96MW in 2013, 85-102 MW in 2014 and 90-108 MW in 2015. A similar provision is under consideration in a parallel docket for Consumers Energy.

In other jurisdictions utilities have been required to meet both an energy savings target as well as a peak demand savings target. For example, in both Ohio and Illinois the electric utilities are required to achieve peak demand reduction targets that are parallel to their energy savings targets. Michigan could explore setting separate targets for peak demand reductions that could be achieved through energy efficiency or demand shifting. However, demand shifting – simply using the same amount of energy at a different time of day – does not have the range of benefits that energy efficiency has either in terms of cost savings, environmental benefits or macroeconomic benefits. Therefore it would be ill-advised to take any action that would shift investment from energy efficiency to demand shifting. The best peak demand reduction strategies are energy efficiency strategies, not load-shifting.

Other things that Michigan could do to further prioritize peak savings are were also listed among the recommendations in the answer to question #5 above for further enhancing reliability benefits of the efficiency investments. Namely,

- Require utilities to estimate the full value of line losses using marginal, rather than average line loss rates, when assessing the cost-effectiveness of their programs under the utility system resource cost test (USRCT).
- Require utilities to estimate the value of passive deferrals of T&D upgrades resulting from their system-wide efficiency programs under the utility system resource cost test (USRCT).

- Require least-cost planning for transmission and distribution investments by utilities so that utilities must explore whether it could save money by using additional energy efficiency projects (over and above those required to meet system-wide savings targets) to defer or eliminate the need for costly T&D upgrades;